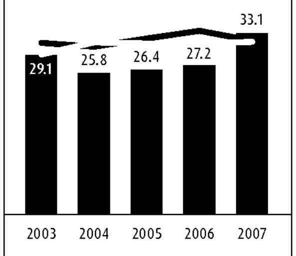
Our Performance | **Peer Group Performance**

Cash and Securities-to-Total Assets

- The cash and securities-to-total assets ratio increased to 33.1% from 27.2% in 2006, reflecting a strong liquidity position.
- Liquidity continues to be supported by broad diversification of deposits and a strong capital base.

Further details are provided on page 71.



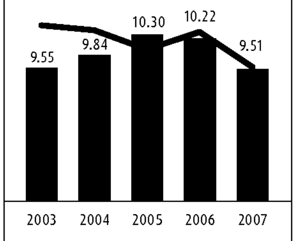
Cash and Securities-to-Total Assets (%)

- The cash and securities-to-total assets ratio of the Canadian peer group averaged 31.7%, down from 33.5% in 2006.
- The cash and securities-to-total assets ratio of the North American peer group averaged 31.5%, up slightly from 31.2% last year.

Capital Adequacy

- The Tier 1 Capital Ratio was strong at 9.51%, down from 10.22% last year, but well above our minimum target of 8.0%.
- The Total Capital Ratio was 11.74%, down slightly from 11.76% in 2006.
- BMO has $2.7 billion of excess capital relative to our targeted minimum Tier 1 Capital Ratio.

Further details are provided on pages 57 and 58.



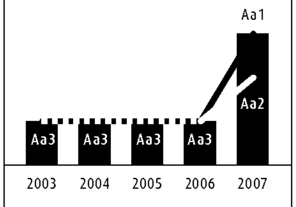
Capital Adequacy

- The Canadian peer group average Tier 1 Capital Ratio was 9.56% in 2007, down from 10.36% in 2006.

Credit Rating (Moody's)

- Our credit rating, as measured by Moody's senior debt ratings, was upgraded due to a change in its methodology. Our rating was raised to Aa1 from Aa3 in the second quarter of 2007, equal to or better than the rating of three other major Canadian banks.
- Moody's ratings outlook on BMO remains stable.

Further details are provided on page 58.



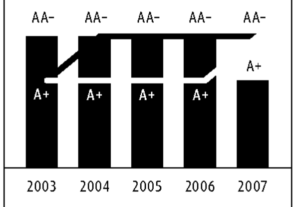
Credit Rating (Moody's)

- Moody's median credit rating of the Canadian peer group was Aa1 at the end of 2007, up from Aa3 at the end of 2006. The rating of each of the banks in the peer group was upgraded as Moody's revised its rating methodology.
- The median rating of the North American peer group was Aa2 at the end of 2007, up from Aa3 at the end of 2006 as the ratings of 10 of the 15 banks in the peer group were upgraded due to the change in rating methodology.

Credit Rating (Standard & Poor's)

- Our credit rating, as measured by Standard and Poor's (S&P) senior debt ratings, was A+, equal to or better than the rating of two other major Canadian banks.
- S&P's ratings outlook on BMO remains stable.

Further details are provided on page 58.



Credit Rating (Standard & Poor's)

- S&P's median credit rating of the Canadian peer group was unchanged from last year at AA–.
- The median credit rating of the North American peer group was AA– at the end of 2007, up from A+ at the end of 2006 as the ratings of five of the larger U.S. banks were upgraded.

BMO Financial Group
Canadian peer group average
North American peer group average

The following Enterprise-Wide Strategy and Economic Developments sections of this Annual Report contain certain forward-looking statements. By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. Please refer to the Caution Regarding Forward-Looking Statements on page 28 of this Annual Report for a discussion of such risks and uncertainties and the material factors and assumptions related to the statements set forth in such sections.

Enterprise-Wide Strategy

Vision

To be the top-performing financial services company in North America.

Our Enterprise-Wide Strategy in Context

We operate in a dynamic environment, where we must be able to respond quickly to our customers and to changes in local, national and global markets. Our customers are the anchor for our strategic plans to grow profitably and achieve our vision. Specific priorities for *our growth*, *our customers* and *increasing our pace* are outlined below:

Our Perspective	Our Strategic Priorities and Progress in 2007
The Canadian personal banking market is becoming increasingly competitive as bank competitors continue to increase their investments in distribution and non-bank competitors continue to focus on niche products and segments. Customers want a bank that is easier to deal with and helps make their finances less complex. We believe we can win in this market by differentiating ourselves with a strong customer experience and a focused and productive sales and distribution network.	**Build a superior Canadian personal banking business to ensure that we meet all our customers' financial needs:** • P&C Canada earned record net income of $1,250 million, up 9.4%, due to our branch-driven sales strategy, systems and process improvements and high-impact product offers. • In P&C Canada, we introduced redesigned integrated branch and individual scorecards with a focus on the Net Promoter Score customer loyalty measure. We also reallocated resources to customer-facing positions.
More of our commercial customers in Canada and the United States are working in home offices and small, independent businesses. Getting it right with these customers will help us capture a disproportionately large share of the growth in this segment of the commercial market. We have an opportunity to take a leadership position in growing commercial markets everywhere we compete by leveraging our commercial sales force and our strong credit and risk management capabilities to deepen our relationships with our customers.	**Further strengthen our commercial banking businesses to become a leading player everywhere we compete:** • In Canada, our customer-focused operating model led to commercial revenue growth of 6.1% and a 63 basis point increase in our market share of business loans of $5 million and below, which increased to 19.2%. • In the United States, we opened loan production offices in four new markets, enhanced by our Indiana and pending Wisconsin acquisitions.
There are significant growth opportunities across the spectrum of wealth management businesses in Canada and the United States as demand increases for advisory services. One of these opportunities is presented by the retirement of baby boomers who are seeking a personally meaningful retirement experience and want advice and clarity about their options from a trusted advisor.	**Grow our wealth management businesses, capturing an increasing share of this high-growth market:** • Private Client Group reported record net income of $408 million, up 15%. • Continued investments in our sales forces and businesses, including our recent agreement, which is subject to regulatory approval, to purchase Pyrford International plc, are positioning us for future growth.
Success in BMO Capital Markets requires a focus on the segments of our North American investment banking and trading products businesses that present the greatest opportunities for disciplined growth, appropriately managed risk and strong returns.	**Drive strong returns and disciplined growth in our North American investment banking business:** • Excluding the $651 million after-tax impact of commodities losses and charges related to deterioration in capital markets, BMO Capital Markets earnings grew by 25% or $216 million, driven by growth in trading revenues, merger and acquisition fees, equity underwriting and corporate loans. • Increased sector focus and key hires in the U.S. market helped deepen our client relationships, increasing revenue per sector coverage officer by more than 18%.
We have a strong franchise in the U.S. Midwest with a well respected brand, excellent customer loyalty and a differentiated community-based business model that provides a strong foundation upon which to carry out our growth plan. The structure of the U.S. financial services industry creates opportunities to consolidate and to achieve revenue and earnings growth as we expand.	**Improve our U.S. performance and expand our network to become the leading personal and commercial bank in the U.S. Midwest:** • P&C U.S. net income increased 3% to US$105 million. Excluding acquisition integration expenses, P&C U.S. earnings increased in each quarter of 2007 relative to the preceding quarter. • Completed the purchase and integration of First National Bank & Trust and entered into agreements to purchase Ozaukee Bank and Merchants and Manufacturers Bancorporation, Inc., increasing our presence in the Indiana market and expanding into Wisconsin.
BMO's ability to outperform will ultimately be driven by our culture and work philosophy. We are creating a customer-centric organization differentiated on the basis of a superior customer experience, built on a deep understanding of our customers and their needs. We will ensure our customers clearly understand the options that are most relevant to them and receive the guidance they need to make the right financial decisions. Our differentiated customer experience will be supported by effective processes, highly-trained and responsive team members and efficient technologies.	**Build a high-performing, customer-focused organization supported by a world-class foundation of productive technologies, efficient processes, disciplined performance management, and sound risk management and governance:** • Across the enterprise, we initiated efforts to improve productivity and shift resources to the front line; captured approximately $140 million in run rate cost reductions; and improved our cash productivity ratio, excluding significant items, by 150 basis points. • Increased our focus on improving our customer experience across the enterprise, increasing front-line capacity and accessibility and improving response times in our retail businesses, shifting to more planning-focused conversations in PCG and creating integrated solutions for our capital market clients.

Caution Regarding Forward-Looking Statements

Bank of Montreal's public communications often include written or oral forward-looking statements. Statements of this type are included in this Annual Report, and may be included in other filings with Canadian securities regulators or the U.S. Securities and Exchange Commission, or in other communications. All such statements are made pursuant to the "safe harbor" provisions of, and are intended to be forward-looking statements under, the United States *Private Securities Litigation Reform Act of 1995* and any applicable Canadian securities legislation. Forward-looking statements may include, but are not limited to, comments with respect to our objectives and priorities for 2008 and beyond, our strategies or future actions, our targets, expectations for our financial condition or share price, and the results of or outlook for our operations or for the Canadian and U.S. economies.

By their nature, forward-looking statements require us to make assumptions and are subject to inherent risks and uncertainties. There is significant risk that predictions, forecasts, conclusions or projections will not prove to be accurate, that our assumptions may not be correct and that actual results may differ materially from such predictions, forecasts, conclusions or projections. We caution readers of this Annual Report not to place undue reliance on our forward-looking statements as a number of factors could cause actual future results, conditions, actions or events to differ materially from the targets, expectations, estimates or intentions expressed in the forward-looking statements.

The future outcomes that relate to forward-looking statements may be influenced by many factors, including but not limited to: general economic and market conditions in the countries in which we operate; currency value fluctuations; changes in monetary policy; the degree of competition in the geographic and business and market areas in which we operate; changes in laws; judicial or regulatory proceedings; the accuracy and completeness of the information we obtain with respect to our customers and counterparties; our ability to execute our strategic plans and to complete and integrate acquisitions; critical accounting estimates; operational and infrastructure risks; general political conditions; global capital markets activity; the possible effects on our business of war or terrorist activities; disease or illness that affects local, national or international economies; disruptions to public infrastructure, such as transportation, communications, power or water supply; and technological changes.

We caution that the foregoing list is not exhaustive of all possible factors. Other factors could adversely affect our results. For more information, please see the discussion below concerning the effect certain key factors could have on actual results. When relying on forward-looking statements to make decisions with respect to Bank of Montreal, investors and others should carefully consider these factors, as well as other uncertainties and potential events, and the inherent uncertainty of forward-looking statements. Bank of Montreal does not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by the organization or on its behalf.

Assumptions about the performance of the Canadian and U.S. economies in 2008 and how that will affect our businesses are material factors we consider when setting our strategic priorities and objectives, and in determining our financial targets, including provision for credit losses. Key assumptions include that the Canadian economy will expand at a moderate pace in 2008 while the U.S. economy expands modestly, and that inflation will remain low in North America. We also have assumed that interest rates in 2008 will decline slightly in Canada and the United States, and that the Canadian dollar will likely be at parity with the U.S. dollar at the end of fiscal 2008. In determining our expectations for economic growth, both broadly and in the financial services sector, we primarily consider historical economic data provided by the Canadian and U.S. governments and their agencies. Assumptions about the terms of any agreement we enter to transfer our liability for future customer redemptions, or to change the cost structure, relating to our customer credit card loyalty rewards program are material factors we considered in assessing expected changes in the run-rate costs of the program. Tax laws in the countries in which we operate, primarily Canada and the United States, are material factors we consider when determining the sustainable effective tax rate.

Factors That May Affect Future Results

As noted in the above Caution Regarding Forward-Looking Statements, all forward-looking statements and information, by their nature, are subject to inherent risks and uncertainties, general and specific, which may cause our actual results to differ materially from the expectations expressed in the forward-looking statements. Some of these risks and uncertainties are discussed in this section.

General Economic and Market Conditions in the Countries in which We Conduct Business

We conduct business in Canada, the United States and other countries. Factors such as interest rates, foreign exchange rates, consumer spending, business investment, government spending, the health of capital markets, the rate of inflation and the threat of terrorism affect the business and economic environments in which we operate. Therefore, the amount of business we conduct in a specific geographic region and the local economic and business conditions may have an effect on our revenues and earnings. For example, a regional economic decline may result in an increase in credit losses, a decrease in loan growth and reduced capital markets activity.

Currency Rates

The Canadian dollar equivalents of our revenues and expenses denominated in currencies other than the Canadian dollar are subject to fluctuations in the value of the Canadian dollar relative to such currencies. Such fluctuations may affect our overall business and financial results. Our most significant exposure is to fluctuations in the value of the Canadian dollar relative to the U.S. dollar due to the size of our operations in the United States. Increases in the value of the Canadian dollar relative to the U.S. dollar have affected our results in the past three years. Further appreciation of the Canadian dollar relative to the U.S. dollar would reduce the translated value of U.S.-dollar-denominated revenues, expenses and earnings relative to prior periods. Refer to the Foreign Exchange section on page 35 and the discussion of Market Risk on pages 68 to 70 for a more complete discussion of our foreign exchange risk exposures.

Monetary Policy

Bond and money market expectations about inflation and central bank monetary policy have an impact on the level of interest rates. Changes in market expectations and monetary policy are difficult to anticipate and predict. Fluctuations in interest rates that result from these changes can have an impact on our earnings. Refer to the discussion of Market Risk on pages 68 to 70 for a more complete discussion of our interest rate risk exposures.

Level of Competition

The level of competition among financial services companies is high. Furthermore, non-financial companies are increasingly offering services traditionally provided by banks. Customer loyalty and retention can be influenced by a number of factors, including service levels, prices for products or services, our reputation and the actions of our competitors. A deterioration in these factors or a loss of market share could adversely affect our earnings.

Changes in Laws and Regulations

Regulations are in place to protect our clients, investors and the public interest. Changes in laws and regulations, including how they are interpreted and enforced, could adversely affect our earnings by allowing more competition for our products and services and by increasing the costs of compliance. In addition, our failure to comply with laws and regulations could result in sanctions and financial penalties that could adversely affect our reputation and earnings.

Judicial or Regulatory Judgments and Legal and Regulatory Proceedings

We take reasonable measures to ensure compliance with the laws and regulations of the jurisdictions in which we conduct business. However, there can be no assurance that we will always be in compliance or be deemed to be in compliance. As a result, it is possible that we could receive a judicial or regulatory judgment or decision which results in fines, damages or other costs that would have a negative impact on earnings and damage our reputation. We are also subject to litigation arising in the ordinary course of our business.

The unfavourable resolution of any litigation could have a material adverse effect on our financial results. Damage to our reputation could also result, harming our future business prospects. Information about legal and regulatory matters we currently face is provided in Note 28 on page 132 of the financial statements.

Accuracy and Completeness of Customer and Counterparty Information
When deciding to extend credit or enter into other transactions with customers and counterparties, we may rely on information provided by or on behalf of those customers and counterparties, including audited financial statements and other financial information. We also may rely on representations made by customers and counterparties that the information they provide is accurate and complete. Our financial results could be adversely affected if the financial statements or other financial information provided by customers and counterparties is materially misleading.

Execution of Strategic Plans
Our financial performance is influenced by our ability to execute strategic plans developed by management. If these strategic plans do not meet with success or if there is a change in these strategic plans, our earnings could grow at a slower pace or decline.

Acquisitions
We perform thorough due diligence before completing an acquisition. However, it is possible that we might make an acquisition that does not subsequently perform in line with our financial or strategic objectives. Higher than anticipated integration costs and failure to realize expected cost savings could adversely affect our earnings after an acquisition. Our post-acquisition performance is also contingent on retaining the clients and key employees of acquired companies, and there can be no assurance that we will always succeed in doing so.

Critical Accounting Estimates
We prepare our financial statements in accordance with Canadian generally accepted accounting principles (GAAP). The application of GAAP requires that management make significant judgments and estimates that can affect when certain assets, liabilities, revenues and expenses are recorded in our financial statements and their recorded values. In making these judgments and estimates, we rely on the best information available at the time. However, it is possible that circumstances may change or new information may become available. Our financial results would be affected in the period in which any new circumstances or information became apparent, and the amount of the impact could be significant. More information is included in the discussion of Critical Accounting Estimates on page 61.

Operational and Infrastructure Risks
We are exposed to many types of operational risk that affect all large corporations. Such risks include the risk of fraud by employees or others, unauthorized transactions by employees, and operational or human error. We also face the risk that computer or telecommunications systems could fail, despite our efforts to maintain these systems in good working order. Given the high volume of transactions we process on a daily basis, certain errors may be repeated or compounded before they are discovered and successfully rectified. Shortcomings or failures of our internal processes, employees or systems, including any of our financial, accounting or other data processing systems, could lead to financial loss and damage to our reputation. In addition, despite the contingency plans we have in place, our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our operations and the communities in which we do business.

Other Factors
Other factors beyond our control that may affect our future results are noted in the Caution Regarding Forward-Looking Statements on page 28. Additional factors, including credit and counterparty, market, liquidity and funding, operational, business reputation, environmental and other risks, are discussed in the Enterprise-Wide Risk Management section starting on page 65.

We caution that the preceding discussion of factors that may affect future results is not exhaustive. When relying on forward-looking statements to make decisions with respect to BMO, investors and others should carefully consider these factors, as well as other uncertainties, potential events and industry and company-specific factors that may adversely affect future results. We do not undertake to update any forward-looking statements, whether written or oral, that may be made from time to time by us or on our behalf.

Economic Developments

Canadian and U.S. Economic and Financial Services Developments in 2007

The Canadian economy grew at a moderate pace in 2007, with very strong domestic demand partially offset by softening exports. The tightening in credit conditions during the summer has yet to have a major adverse impact on economic growth. Consumer spending was sustained by solid gains in employment and income, supporting growth in personal loans. Housing market activity continued at high levels, boosting residential mortgages. Companies invested briskly to expand capacity, spurring growth in business credit. The strong Canadian dollar held inflation low despite rising oil prices and the lowest unemployment rate in 33 years. High commodity prices supported earnings growth in the resource sector, fostering strong underwriting and merger and acquisition activities in the first half of the year. The Bank of Canada raised overnight lending rates 25 basis points in July before moving to the sidelines as credit and liquidity concerns unfolded in the markets in late summer.

The U.S. economy grew at a modest rate in 2007, slowing from the previous year as a result of a weakening housing market and rising energy costs. An increase in default rates and a decrease in sales have boosted the supply of unsold homes, causing house prices to decline. While residential mortgage growth continued to slow, growth in personal and business loans remained healthy. In September, the Federal Reserve reduced interest rates for the first time in more than four years to address the risks to the economy arising from tighter credit conditions and weaker housing markets. Rates were lowered further in October.

There was significant deterioration in capital markets in the fourth quarter of 2007. BMO recorded $318 million of charges related to the deterioration. The charges are discussed in the Trading-Related Revenues section on page 38. Further detail on market conditions at the end of 2007 are discussed in BMO Capital Markets Business Environment and Outlook section on page 53.

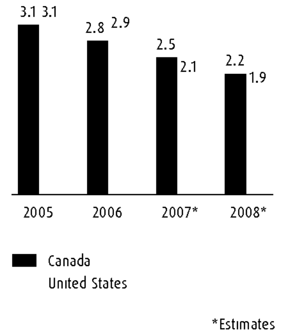
Economic and Financial Services Outlook for 2008

In 2008, the Canadian economy is expected to continue growing moderately, restrained by a soft U.S. economy and a strong Canadian dollar. A slowing in housing activity due to a decline in affordability will likely dampen demand for residential mortgages. In contrast, business investment should remain healthy in light of sound corporate balance sheets, promoting growth in business credit. Interest rates are expected to ease modestly in 2008. While the Canadian dollar should remain strong relative to a generally weak U.S. dollar, it is expected to weaken somewhat in 2008 in response to a moderation in commodity prices.

The U.S. economy is expected to continue growing modestly in 2008, with weakness in the housing market partly offset by the supportive effects of an easier monetary policy and stronger net exports arising from brisk global economic growth and the weaker U.S. dollar. Growth should pick up in the second half of the year as the slump in the housing market recedes. Demand for personal and business credit will likely continue to expand at a moderate pace, although growth in residential mortgages is expected to slow further. The Federal Reserve is expected to reduce interest rates further in early 2008.

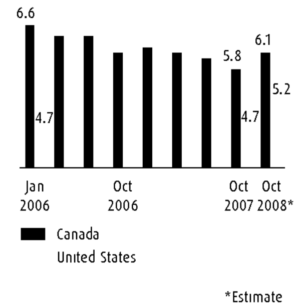
Weakness in capital markets is expected to continue into the first half of 2008, with improvement expected in the second half of the year.

Real Growth in Gross Domestic Product (%)



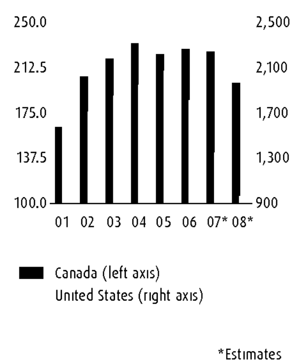
The Canadian and U.S. economies are expected to show modest growth in 2008.

Canadian and U.S. Unemployment Rates (%)



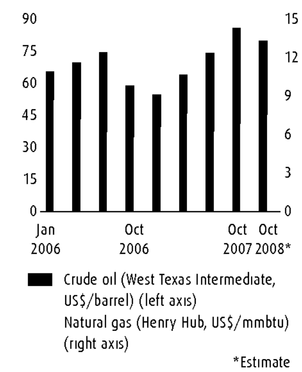
Canadian and U.S. jobless rates are expected to rise moderately in 2008.

Housing Starts
(in thousands)



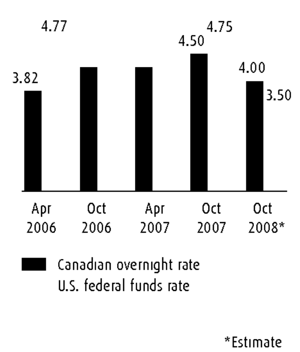
Homebuilding in Canada should slow in 2008 from high levels, while construction in the United States will likely remain very weak.

Energy Prices (US$)



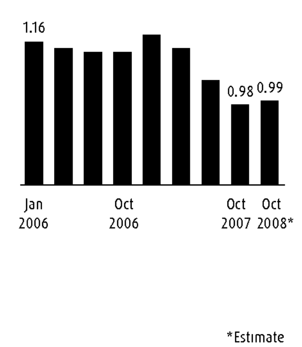
Oil prices will likely decline somewhat from record highs, but natural gas prices should strengthen.

Canadian and U.S. Interest Rates (%)



Central banks will likely ease monetary policy in 2008.

Canadian/U.S. Dollar Exchange Rates



The Canadian dollar is expected to weaken moderately relative to the U.S. dollar in 2008.

Value Measures

Highlights

- Total Shareholder Return (TSR) – BMO shareholders have earned an average annual return of 14.2% over the past five years. The TSR in 2007 was –5.8%.
- Earnings per share (EPS) growth – EPS fell 20% from 2006 after having grown to record levels for four straight years. Excluding the impact of significant items, EPS increased 11%.
- Net income was $2.1 billion, with P&C Canada and Private Client Group earning record net income. Excluding the impact of significant items, net income was $2.9 billion with strong results in BMO Capital Markets.
- Return on Equity (ROE) – BMO's ROE was 14.4%, reflecting the core strengths and benefits of our diversified businesses. Excluding the impact of significant items, ROE was 19.8%, the highest in 20 years. ROE has exceeded 13% for 18 consecutive years, distinguishing BMO as the only bank in its North American peer group with this level of earnings consistency.
- The quarterly dividend declared per common share was raised three times in 2007, with total dividends declared increasing 20% over the 2006 total. Dividends paid have increased at an annual rate of 17.4% over the past five years.

Total Shareholder Return

BMO's governing objective is to maximize the total return to our shareholders and generate, over time, first-quartile total shareholder return (TSR) relative to our Canadian and North American peer groups.

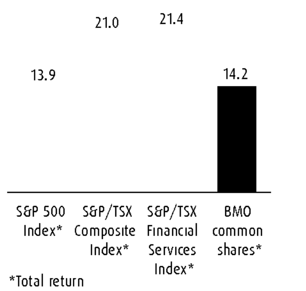
The five-year average annual TSR is a key measure of shareholder value and is the most important of our financial performance and condition measures, since it assesses our success in achieving our governing objective of maximizing return to shareholders. Over the past five years, shareholders have earned an average annual TSR of 14.2% on their investment in BMO common shares. This return was lower than the 21.0% average annual return for the S&P/TSX Composite Total Return Index and the 21.4% return for the S&P/TSX Financial Services Total Return Index. The table below summarizes dividends paid on BMO common shares over the past five years and the appreciation in BMO's share price. An investment of $1,000 in Bank of Montreal common shares made at the beginning of fiscal 2003 would have been worth $1,941 at October 31, 2007, assuming reinvestment of dividends, for a total return of 94.1%. Dividends paid over the five-year period have increased at an average annual compound rate of 17.4%. Dividends paid increased in two of four quarters in 2007, rising 10% from $0.62 per share in the fourth quarter of 2006 to $0.68 per share in the fourth quarter of 2007, following a 35% increase in 2006. Dividends paid on each common share increased 23% in 2007 to $2.63.

The average annual TSR of 14.2% for the most recent five-year period decreased from the 19.1% average annual return for the five years ended October 31, 2006. The averages are affected by the one-year TSRs included in the calculations.

Page 24 provides further comment on total shareholder return and includes peer group comparisons.

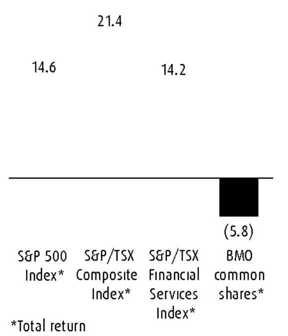
The **five-year average annual total shareholder return (TSR)** represents the average annual total return earned on an investment in BMO common shares made at the beginning of a five-year period. The return includes the change in share price and assumes that dividends received were reinvested in additional common shares. The one-year TSR also assumes that dividends were reinvested in shares.

Five-Year Average Annual Total Shareholder Return (%)



Our five-year return to shareholders had surpassed our benchmarks until 2007.

One-Year Total Shareholder Return (%)



BMO shares underperformed in relation to our benchmarks in 2007.

Total Shareholder Return

For the year ended October 31	**2007**	2006	2005	2004	2003	**Five-year CAGR** (1)
Closing market price per common share ($)	**63.00**	69.45	57.81	57.55	49.33	**10.6**
Dividends paid ($ per share)	**2.63**	2.13	1.80	1.50	1.29	**17.4**
Dividends paid (%)	**3.8**	3.7	3.1	3.0	3.4	
Increase (decrease) in share price (%)	**(9.3)**	20.1	0.5	16.7	29.5	
Total annual shareholder return (%)	**(5.8)**	24.1	3.7	20.0	33.4	

Total annual shareholder return assumes reinvestment of quarterly dividends and therefore does not equal the sum of dividend and share price returns in the table.
(1) Compound annual growth rate (CAGR).

Earnings per Share Growth

The year-over-year percentage change in earnings per share (EPS) is our key measure for analyzing earnings growth. All references to EPS are to diluted EPS, unless indicated otherwise.

EPS was $4.11, down $1.04 or 20% from a record $5.15 in 2006. Four significant items affected results in 2007, reducing EPS by $1.55 per share, compared with one such item in 2006 that increased EPS by $0.04 per share. Excluding the impact of these significant items, EPS was $5.66, up $0.55 or 10.8%. Our annual target was to grow EPS by 5% to 10% from a base of $5.11, excluding changes in the general allowance for credit losses and restructuring charges. We did not meet the target because of the significant items that affected results. However, excluding the impact of those significant items, we surpassed our target by growing EPS by 10.8% to $5.66 on that basis. In 2008, we are targeting EPS growth of 10% to 15%, from a base of $5.24, as explained on page 23. Our targets for 2008, as in prior years, have been established in the context of our expectations for the economy, as outlined in our economic outlook for 2008 on page 30.

Our five-year compound average annual EPS growth rate was 8.9%, below our medium-term objective of 10%. Excluding the impact of significant items in 2007, the rate was 15.9% as EPS increased to $5.66 in 2007 from $2.68 in 2002 on this basis. EPS in 2002 was lowered by high specific provisions for credit losses, which totalled $820 million, the second highest level in the current credit cycle and $517 million higher than in 2007. EPS growth in 2003 and 2004 benefited from very favourable credit conditions.

The four significant items that reduced net income by $787 million or $1.55 per share were:

- losses in our commodities trading business of $853 million ($440 million after tax and associated performance-based compensation, or $0.86 per share) recorded in BMO Capital Markets;
- charges for certain trading activities and valuation adjustments related to deterioration in capital markets of $318 million ($211 million after tax and $0.42 per share) also recorded in BMO Capital Markets;
- restructuring charges of $159 million ($103 million after tax and $0.20 per share) recorded in Corporate Services; and
- increase in the general allowance for credit losses of $50 million ($33 million after tax and $0.07 per share) recorded in Corporate Services.

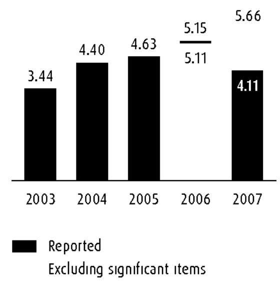
In 2006, one significant item increased net income: a decrease in the general allowance for credit losses of $35 million ($23 million after tax and $0.04 per share) recorded in Corporate Services.

Net income was $2,131 million in 2007, down $532 million or 20% from $2,663 million a year ago. BMO had earned record net income in each of the preceding four years. Excluding the significant items that affected results in both years, net income was $2,918 million, up $278 million or 10.5%. This increase was primarily attributable to improved revenues from business growth. Provisions for credit losses were $177 million ($115 million after tax) higher than a year ago, approximately half of which related to the change in the general allowance for credit losses.

Personal and Commercial Banking and Private Client Group earned record net income in 2007, as in 2006 and 2005, when BMO Capital Markets also reported record earnings. Personal and Commercial Banking (P&C) net income rose $107 million or 8.5% from a year ago to $1,364 million. The P&C group combines our two retail and business banking operating segments, Personal and Commercial Banking Canada (P&C Canada) and Personal and Commercial Banking U.S. (P&C U.S.). P&C Canada net income rose by $108 million or 9.4% to $1,250 million. The improvement was attributable to volume-driven revenue growth, as revenue increased at a faster pace than expenses. Results in 2007 and 2006 included notable items that increased net income in each year by comparable amounts. P&C Canada results are discussed in the operating group review on page 46. P&C U.S. net income decreased

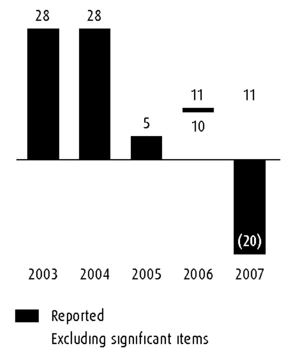
Earnings per share (EPS) is calculated by dividing net income, after deduction of preferred dividends, by the average number of common shares outstanding. Diluted EPS, which is our basis for measuring performance, adjusts for possible conversions of financial instruments into common shares if those conversions would reduce EPS, and is more fully explained in Note 25 on page 129 of the financial statements.

EPS ($)



Significant items affected results, ending a streak of four consecutive years of achieving record earnings.

EPS Annual Growth (%)



EPS fell appreciably. Excluding significant items, we would have earned record EPS and surpassed our growth target.

$1 million or 1% to $114 million, but improved by $3 million or 3% on a U.S. dollar basis. We achieved good volume growth in 2007 while net interest margins were reduced. P&C U.S. results are discussed in the operating group review on page 48.

Private Client Group (PCG) net income was up $53 million or 15% to $408 million. The increase was primarily due to strong growth in operating revenues. PCG's results are discussed in the operating group review on page 51. BMO Capital Markets (BMO CM) net income fell $435 million or 51% to $425 million. Excluding the impact of the two significant items affecting its results in 2007, net income rose $216 million or 25% to $1,076 million. This improvement was attributable to strong growth in both fee-based business revenues and corporate loans. BMO CM results are discussed in the operating group review on page 54. Corporate Services net income decreased $257 million to a net loss of $66 million. Excluding the two remaining significant items affecting its 2007 results and the significant item of a year ago, Corporate Services net income fell $98 million. This decrease was due to reduced revenues and higher provisions for credit losses, largely recorded in Corporate Services under BMO's expected loss provisioning methodology, which is explained in the operating group review on page 55.

Revenue on a taxable equivalent basis, which is explained on pages 34 and 36, decreased $583 million or 5.8% to $9,529 million. Excluding the two significant items that affected revenue, revenue increased $588 million or 5.8%. Business acquisitions added $52 million to revenue growth, while the weaker U.S. dollar reduced revenue growth by $87 million, as explained on page 35. P&C Canada revenue increased 4% largely due to volume growth, as net interest margin was unchanged. Its revenue growth was lowered 1.7 percentage points by certain items that are discussed on page 46. P&C U.S. revenue grew 4% on a U.S. dollar basis, largely due to acquisitions and loan growth, partially offset by reductions in net interest margins.

PCG revenue increased 8% on broad-based growth, with most businesses contributing higher revenues. BMO CM revenues decreased $811 million or 29%, but increased $360 million or 13% excluding the impact of significant items. There were considerable increases in merger

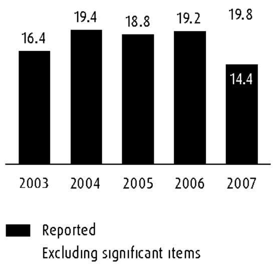
and acquisition fees, equity underwriting activities and earnings on corporate loans. Total revenue growth is discussed further on page 36.

Provisions for credit losses totalled $353 million, consisting of $303 million of specific provisions and a $50 million increase in the general allowance for credit losses. In 2006, provisions for credit losses totalled $176 million, consisting of $211 million of specific provisions and a $35 million reduction in the general allowance. The provision for credit losses is discussed further on page 39.

Non-interest expense increased $248 million or 3.9% to $6,601 million. Expense increased $46 million as a result of acquired businesses, but was reduced $57 million by the impact of the weaker U.S. dollar. Two-thirds of the year-over-year expense increase was due to restructuring charges. Non-interest expense is discussed further on page 40.

Return on Equity

Return on equity (ROE) is another key value measure. BMO has generated an ROE of more than 13% in each of the past 18 years, and is the only bank in its North American peer group to meet this test of earnings consistency. We achieved an ROE of 14.4% in 2007, down from 19.2% in 2006. This reduction in the return was attributable to the $532 million decrease in net income and the impact of a $0.8 billion increase in average common shareholders' equity. We achieved this 14.4% return in spite of the commodities losses and the fourth quarter charges associated with the deterioration in the capital markets environment. The 14.4% return was below our annual target of 18% to 20%. Excluding the significant items that affected results in 2007, ROE was 19.8%. Our medium-term objective is to achieve an average annual 18% to 20% ROE, over time. In 2008, we are targeting ROE of 18% to 20%. Table 3 on page 79 includes ROE statistics for the past 10 years. Page 24 provides further comment on ROE and includes peer group comparisons.

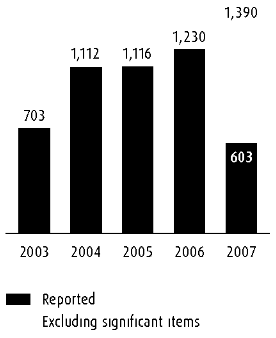


ROE was 14.4% in 2007 despite commodities losses and a difficult capital markets environment late in the year.

Return on common shareholders' equity (ROE) is calculated as net income, less preferred dividends, as a percentage of average common shareholders' equity. Common shareholders' equity is comprised of common share capital, contributed surplus, accumulated other comprehensive income (loss) and retained earnings.

Net Economic Profit Growth

The last of our four key value measures is net economic profit (NEP) growth. NEP was $603 million, down from a record $1,230 million in the prior year. The decrease was primarily due to the significant items that affected results, as well as an increase in shareholders' equity. NEP increased $160 million excluding significant items. Page 24 provides further comment on NEP growth and includes peer group comparisons.



Lower NEP reflected a decline in BMO Capital Markets results.

Net economic profit (NEP) represents cash net income available to common shareholders, less a charge for capital. NEP is an effective measure of economic value added. NEP is a non-GAAP measure. See page 34.

Net Economic Profit ($ millions, except as noted)

For the year ended October 31	**2007**	2006	2005	2004	2003
Net income available to common shareholders	**2,088**	2,633	2,366	2,264	1,743
After-tax impact of the amortization of intangible assets	**38**	36	74	78	79
Cash net income available to common shareholders	**2,126**	2,669	2,440	2,342	1,822
Charge for capital*	**(1,523)**	(1,439)	(1,324)	(1,230)	(1,119)
Net economic profit	**603**	1,230	1,116	1,112	703
Net economic profit growth (%)	**(51)**	10	–	58	92
*Charge for capital					
Average common shareholders' equity	**14,506**	13,703	12,577	11,696	10,646
Cost of capital (%)	**10.5**	10.5	10.5	10.5	10.5
Charge for capital	**(1,523)**	(1,439)	(1,324)	(1,230)	(1,119)

2007 Financial Performance Review

This section provides a review of our enterprise financial performance for 2007 that focuses on the Consolidated Statement of Income included in our consolidated financial statements, which begin on page 92. A review of our operating groups' strategies and performance follows the enterprise review. A summary of the enterprise financial performance for 2006 is outlined on page 77.

Highlights

- Revenue decreased $583 million or 5.8% in 2007, but increased $588 million or 5.8% excluding the impact of significant items.
- Revenue growth in P&C Canada was attributable to strong volume growth across its three business lines, but was limited by some notable items. P&C U.S. revenue growth was attributable to loan growth and acquisitions, but was limited by lower net interest margin and the weak U.S. dollar. Private Client Group revenue growth was well balanced, with increases across all its businesses. BMO Capital Markets revenues were down significantly, but were up strongly excluding the impact of significant items, with robust increases in a number of fee-based businesses and in net interest income.
- The provision for credit losses increased to $353 million from $176 million in 2006. Specific provisions were up $92 million to $303 million and there was a $50 million increase in the general allowance, compared with a $35 million decrease a year ago. Credit conditions softened in 2007.
- Non-interest expense increased 3.9% in 2007, with two-thirds of the growth due to restructuring charges related to initiatives to improve efficiency and effectiveness across the enterprise.
- The effective income tax rate was 14.3%, compared with 23.6% in 2006. The reduced rate was due to a relatively higher proportion of income from lower-tax-rate jurisdictions and prior years' income tax recoveries.

Non-GAAP Measures

BMO uses both GAAP and non-GAAP measures to assess performance. Securities regulators require that companies caution readers that earnings and measures adjusted to a basis other than generally accepted accounting principles (GAAP) do not have standardized meanings and are unlikely to be comparable to similar measures used by other companies.

Management discloses amounts on a basis that adjusts for certain significant items. Amounts and measures stated on a basis that excludes the significant items are considered useful as they would be expected to be more reflective of ongoing operating results. Since such charges tend to be irregular, adjusting for them is helpful in assessing quarterly trends in results. These significant items included: losses in our commodities business in 2007 and related performance-based compensation; charges related to deterioration in capital markets in the fourth quarter of 2007; restructuring charges recorded in the first and fourth quarters; and changes in the general allowance for credit losses.

Cash earnings and productivity measures may enhance comparisons between periods when there has been an acquisition, particularly because the purchase decision may not consider the amortization of intangible assets to be a relevant expense. Cash EPS measures are also useful because analysts often focus on this measure, and cash EPS is used by Thomson First Call to track third-party earnings estimates.

BMO, like many banks, analyzes revenue, and ratios computed using revenue, on a taxable equivalent basis (teb). This basis includes an adjustment that increases GAAP revenues and the GAAP provision for income taxes by an amount that would raise revenues on certain tax-exempt securities to a level equivalent to amounts that would incur tax at the statutory rate. The effective income tax rate is also analyzed on a taxable equivalent basis for consistency in approach.

Net economic profit is another non-GAAP measure. It represents cash earnings available to common shareholders less a charge for capital, and is considered an effective measure of added economic value.

GAAP and Related Non-GAAP Measures Used in the MD&A

($ millions, except as noted)	2007	2006	2005
Net interest income per financial statements (a)	**4,843**	4,744	4,787
Non-interest revenue	**4,506**	5,241	5,052
Revenue per financial statements (b)	**9,349**	9,985	9,839
Taxable equivalent basis (teb) adjustment (c)	**180**	127	119
Net interest income (teb) (a + c) (d) (1)	**5,023**	4,871	4,906
Non-interest revenue	**4,506**	5,241	5,052
Revenue (teb) (e) (1)	**9,529**	10,112	9,958
Provision for income taxes per financial statements (f)	**189**	717	874
Taxable equivalent basis (teb) adjustment	**180**	127	119
Provision for income taxes (teb) (g) (1)	**369**	844	993
Non-interest expense (h)	**6,442**	6,353	6,332
Restructuring charge (i)	**159**	–	–
Total non-interest expense (j)	**6,601**	6,353	6,332
Amortization of intangible assets	**(46)**	(44)	(94)
Cash-based expense (k) (1)	**6,555**	6,309	6,238
Net income (l)	**2,131**	2,663	2,396
Amortization of intangible assets, net of income taxes	**38**	36	74
Cash net income (m) (1)	**2,169**	2,699	2,470
Preferred share dividends	**(43)**	(30)	(30)
Charge for capital (1)	**(1,523)**	(1,439)	(1,324)
Net economic profit (1)	**603**	1,230	1,116
Productivity ratio (%) ((j/b) x 100)	**70.6**	63.6	64.4
Productivity ratio (teb) (1) (%) ((j/e) x 100)	**69.3**	62.8	63.6
Cash productivity ratio (teb) (1) (%) ((k/e) x 100)	**68.8**	62.4	62.6
Net interest margin annualized (%) ((a/average earning assets) x 100)	**1.59**	1.81	1.97
Net interest margin (teb) annualized (1) (%) ((d/average earning assets) x 100)	**1.65**	1.86	2.02
EPS (uses net income) ($)	**4.11**	5.15	4.63
Cash EPS (1) (uses cash net income) ($)	**4.18**	5.23	4.78
Effective tax rate (%) (f/income before income taxes)	**7.9**	20.7	26.3
Effective tax rate (teb) (1) (%) (g/income before income taxes plus teb adjustment)	**14.3**	23.6	28.8
Significant Items			
Charges related to deterioration in capital markets (n)	**318**	–	–
Commodities losses (o)	**853**	–	–
Performance-based compensation thereon (p)	**(120)**	–	–
Changes in the general allowance	**50**	(35)	(40)
Restructuring charges (q)	**159**	–	–
Income taxes re the above	**(473)**	12	14
Significant items (after tax) (2)	**787**	(23)	(26)
Measures on a basis that excludes significant items (1)			
Revenue (teb) (e + n + o) (3)	**10,700**	10,112	9,958
Non-interest expense (j – p – q) (4)	**6,562**	6,353	6,332
Cash-based expense (k – p – q) (5)	**6,516**	6,309	6,238
Net income (l + 2)	**2,918**	2,640	2,370
Cash net income (m + 2)	**2,956**	2,676	2,444
Productivity ratio (teb) (%) ((4/3) x 100)	**61.3**	62.8	63.6
Cash productivity ratio (teb) (%) ((5/3) x 100)	**60.9**	62.4	62.6
EPS (uses net income excluding significant items)	**5.66**	5.11	4.58
Cash EPS (uses cash net income excluding significant items)	**5.73**	5.19	4.73
ROE (%) (uses net income excluding significant items)	**19.8**	19.2	18.6
Effective tax rate (teb) (%) (g + tax on significant items)/(income before income tax + teb adjustment + impact of significant items excluding tax)	**22.0**	23.5	28.7

(1) These are non-GAAP amounts or non-GAAP measures.

Foreign Exchange

The Canadian dollar equivalents of BMO's U.S.-dollar-denominated net income, revenues, expenses, income taxes and provision for credit losses in 2007 and 2006 were lowered relative to the preceding year by the weakening of the U.S. dollar. The adjacent table indicates average Canadian/U.S. dollar exchange rates in 2007, 2006 and 2005 and the impact of lower rates. At October 31, 2007, the Canadian dollar traded at $0.945 per U.S. dollar.

At the start of each quarter, BMO enters into hedging transactions that are designed to partially offset the pre-tax effects of exchange rate fluctuations in the quarter on our expected U.S.-dollar-denominated net income for that quarter. As such, these activities partially mitigate the impact of exchange rate fluctuations, but only within that quarter. As such, the sum of the hedging gains/losses for the four quarters in a year is not directly comparable to the impact of year-over-year exchange rate fluctuations on earnings for the year.

Each one-cent decrease (increase) in the Canadian/U.S. dollar exchange rate, expressed in terms of how many Canadian dollars one U.S. dollar buys, decreases (increases) BMO's annual earnings by approximately $6 million before income taxes in the absence of hedging activity.

The gain or loss from hedging transactions in future periods will be determined by both future exchange rate fluctuations and the amount of the underlying future hedging transactions, since the transactions are entered into each quarter in relation to expected U.S.-dollar-denominated net income for the next three months. The effect of exchange rate fluctuations on our net investment in foreign operations is discussed in the Provision for Income Taxes section on page 41.

Effects of the Weaker U.S. Dollar on BMO's Results

($ millions, except as noted)	**2007 vs. 2006**	2006 vs. 2005
Canadian/U.S. dollar exchange rate (average)		
2007	**1.093**	
2006	**1.132**	1.132
2005		1.214
Reduced net interest income	**(39)**	(63)
Reduced non-interest revenue	**(48)**	(107)
Reduced revenues	**(87)**	(170)
Reduced expenses	**57**	112
Reduced provision for credit losses	**9**	4
Reduced income taxes	**5**	28
Reduced net income before hedging gains	**(16)**	(26)
Hedging gains	**21**	3
Income taxes thereon	**(7)**	(1)
Reduced net income	**(2)**	(24)

MD&A

Impact of Business Acquisitions and Sales

BMO Financial Group has selectively acquired a number of businesses in advancing our North American growth strategy. We also sold a business in 2005. These acquisitions and the sale increase or decrease revenue and expenses, affecting year-over-year comparisons of operating results. The adjacent table outlines acquisitions and the sale by operating group and their impact on BMO's revenue, expenses and net income for 2007 relative to 2006, and for 2006 relative to 2005, to assist in analyzing changes in results.

For the acquisitions completed in fiscal 2007, the incremental effects are the revenues and expenses of those businesses that are included in results for fiscal 2007. For the acquisition completed in fiscal 2006, the incremental effects on results for 2007 are the revenues and expenses of that business from the beginning of fiscal 2007 until the first anniversary of its acquisition.

For the fiscal 2006 acquisition, the incremental effects on results for 2006 relative to 2005 are the revenues and expenses of that business that are included in results for fiscal 2006, and for the acquisition completed in fiscal 2005, the incremental effects on results for fiscal 2006 are the revenues and expenses of that business from the beginning of fiscal 2006 until the first anniversary of its acquisition.

Harris*direct* was sold in October 2005, the last month of fiscal 2005. As such, the reductions in results for 2006 relative to 2005 were the 2005 revenues, expenses, net loss and cash net income of the business that was sold. The sale was completed to redeploy capital to higher-return businesses.

Impact of Business Acquisitions and Sales on Year-over-Year Comparisons* ($ millions)

	Increase (decrease) in:			
Business acquired/sold	Revenue	Expense	Net income	Cash net income
Personal and Commercial Banking				
Incremental effects on results for: **2007**	**52**	**46**	**2**	**5**
2006	17	29	(7)	1
First National Bank & Trust				
Acquired January 2007 for $345 million				
bcpbank Canada				
Acquired December 2006 for $41 million				
Villa Park Trust and Savings Bank				
Acquired December 2005 for $76 million				
Mercantile Bancorp, Inc.				
Acquired December 2004 for $194 million				
Private Client Group				
Incremental effects on results for: 2006**	(253)	(243)	5	(27)
Harris*direct*				
Sold October 2005 for $827 million resulting in a gain of $49 million ($18 million after tax)				
BMO Financial Group				
Incremental effects on results for: **2007**	**52**	**46**	**2**	**5**
2006	(236)	(214)	(2)	(26)
Purchases of $656 million and a sale for $827 million				

*The impact in 2007 excludes integrations; the impact in 2006 included $13 million of integration costs.
**Includes the $49 million ($18 million after tax) gain on sale in 2005.

Revenue

Revenue on a taxable equivalent basis (see page 34) decreased $583 million or 5.8% in 2007 to $9,529 million. Revenue was reduced by losses in our commodities trading business of $853 million and by charges in the fourth quarter of 2007 of $318 million for certain trading activities and valuation adjustments related to deterioration in capital markets. Excluding the impact of these significant items, which were almost entirely charged against trading non-interest revenue, revenue increased $588 million or 5.8% to $10,700 million. On this basis, growth was strong in each of the operating groups. The weaker U.S. dollar reduced overall revenue growth by $87 million or 0.9 percentage points, while the net impact of acquired businesses increased growth by $52 million or 0.5 percentage points.

BMO, like many banks, analyzes revenue on a taxable equivalent basis (teb). The teb adjustments for fiscal 2007 totalled $180 million, up from $127 million a year ago. In 2008, management expects to continue to assess the performance of the operating groups on this basis and report accordingly; however, BMO's consolidated results will be assessed and reported on a non-teb basis, consistent with most of our Canadian peer group.

P&C Canada revenue increased $163 million or 4%. The segment's revenue growth was reduced by $76 million or 1.7 percentage points by certain items that affected its revenues. The most notable were a $185 million adjustment to increase our liability for future redemptions related to our customer loyalty rewards program and a $107 million gain on sale of MasterCard International Inc. shares. There was good volume growth in the three businesses. P&C U.S. revenue increased US$34 million or 4% as a result of volume growth and acquisitions. Private Client Group revenue increased $161 million or 8%, with balanced growth in both net interest income and non-interest revenue. BMO Capital Markets revenue was down significantly but increased $360 million or 13% excluding the impact of significant items. There were considerable revenue increases in certain fee-based businesses and strong growth in net interest income.

Net Interest Income

Net interest income for the year was $5,023 million, an increase of $152 million from 2006. The net effect of businesses acquired increased net interest income by $36 million, while the impact of the weaker U.S. dollar reduced net interest income by $39 million. All the operating groups achieved strong volume growth, and average earning assets increased $43 billion. The resulting growth in net interest income was partly offset by a reduction in Corporate Services net interest income related to reduced securitization revenues in 2007 and lower interest earned on tax reserves and refunds. BMO's net interest margin was lower due to the growth in low-spread assets in BMO Capital Markets and the reduction in earnings in Corporate Services. P&C Canada's margin was unchanged. The two main drivers of BMO's overall net interest margin are the individual group margins and the changes in the magnitude of each operating group's assets.

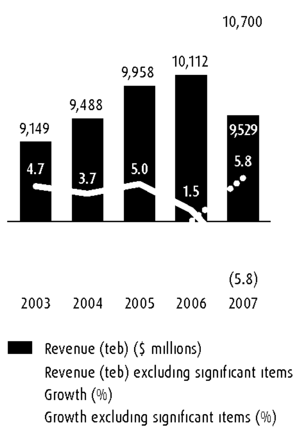
Taxable equivalent basis (teb)
Revenues reflected in our MD&A are presented on a taxable equivalent basis (teb). The teb adjustment increases GAAP revenues and the provision for income taxes by an amount that would increase revenues on certain tax-exempt securities to a level that would incur tax at the statutory rate, to facilitate comparisons. The effect is disclosed on page 34 and in Table 7 on page 80.

Net interest income is comprised of earnings on assets, such as loans and securities, including interest and dividend income and BMO's share of income from investments accounted for using the equity method of accounting, less interest expense paid on liabilities, such as deposits.
Net interest margin is the ratio of net interest income to earning assets, expressed as a percentage or in basis points.

Revenue ($ millions)

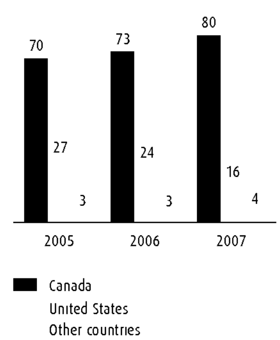
For the year ended October 31	2007	2006	2005	2004	2003
Net interest income (teb)	**5,023**	4,871	4,906	4,937	4,929
Year-over-year growth (%)	**3.1**	(0.7)	(0.6)	0.2	2.4
Non-interest revenue	**4,506**	5,241	5,052	4,551	4,220
Year-over-year growth (%)	**(14.0)**	3.8	11.0	7.8	7.6
Total revenue (teb)	**9,529**	10,112	9,958	9,488	9,149
Year-over-year growth (%)	**(5.8)**	1.5	5.0	3.7	4.7

Revenue and Annual Growth



Revenue fell 5.8% but rose 5.8% excluding significant items.

Revenue by Country (teb) (%)



The impact of significant items was more concentrated in our U.S. businesses.

Change in Net Interest Income, Average Earning Assets and Net Interest Margin

	Net interest income (teb) ($ millions)		Change		Average earning assets ($ millions)		Change		Net interest margin (in basis points)		
For the year ended October 31	2007	2006	$	%	2007	2006	$	%	2007	2006	Change
P&C Canada	**3,065**	2,941	124	4	**115,147**	110,433	4,714	4	**266**	266	–
P&C U.S.	**730**	740	(10)	(1)	**21,658**	20,143	1,515	8	**337**	367	(30)
Personal and Commercial Banking (P&C)	**3,795**	3,681	114	3	**136,805**	130,576	6,229	5	**277**	282	(5)
Private Client Group (PCG)	**613**	569	44	8	**6,352**	5,703	649	11	**966**	999	(33)
BMO Capital Markets (BMO CM)	**974**	773	201	26	**162,309**	124,782	37,527	30	**60**	62	(2)
Corporate Services, including Technology and Operations	**(359)**	(152)	(207)	(+100)	**(995)**	400	(1,395)	(+100)	**nm**	nm	nm
Total	**5,023**	4,871	152	3	**304,471**	261,461	43,010	16	**165**	186	(21)

nm – not meaningful

In P&C Canada, there was a solid increase in net interest income. Volume growth remained strong for all major product categories except mortgages, where we chose to exit third-party and mortgage broker channels, as well as personal deposits, which declined slightly in a very competitive market. In P&C U.S., there was solid loan growth enhanced by acquisitions, but the contribution to total growth in net interest income was reduced by the weaker U.S. dollar. The net interest margin in Canada was unchanged as improved mortgage spreads were offset by increased funding costs of other products. In P&C U.S., the net interest margin was affected by competitive pressures on loan pricing and by a changing product mix as customers shifted to lower-spread deposits and fixed-rate loans.

Private Client Group net interest income increased strongly, primarily due to increased deposit balances in our brokerage businesses and term investment products. The group's net interest margin is significantly higher than other groups, as the net interest margin calculation represents net interest income as a percentage of average earning assets. The group's primary source of net interest income is term investment products, which are liabilities.

BMO Capital Markets' net interest income increased $201 million or 26%. Its average earning assets increased $38 billion, with growth in both corporate loans and low-margin capital markets assets driven largely by client demand. The group's net interest margin declined slightly as wider trading spreads were more than offset by the negative effect of growth in low-margin assets and by lower spreads on corporate loans.

Corporate Services net interest income decreased due to the credit card loan securitization in the fourth quarter of 2007, as well as lower interest earned on tax refunds and reserves. Its net interest income also fluctuates in response to activities related to certain balance sheet positions and BMO's overall asset-liability position.

Non-Interest Revenue

Non-interest revenue, which comprises all revenues other than net interest income, decreased $735 million or 14% from 2006. Excluding the impact of the non-interest revenue component of the two significant items discussed previously, non-interest revenue increased $416 million or 8%. The net impact of acquired businesses increased 2007 non-interest revenue by $16 million, while the impact of the weaker U.S. dollar reduced non-interest revenue by $48 million.

Securities commissions and fees increased $94 million or 9%. These fees consist largely of full-service and self-directed retail brokerage commissions within Private Client Group, which account for about two-thirds of the balance, and institutional equity trading commissions within BMO Capital Markets. The increase was split fairly evenly between the two groups, and was attributable to higher equity market valuations and greater client trading volumes. Growth in Private Client Group was reduced by competitive pricing pressures in the direct investing industry.

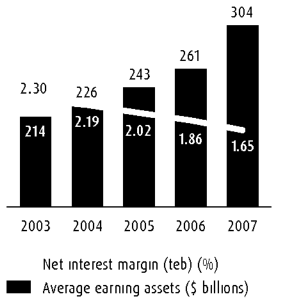
Deposit and payment service charges were relatively unchanged as in 2006. Approximately 60% of these revenues are earned in P&C Canada.

Lending fees increased $69 million or 20%, largely due to growth in corporate loans in BMO Capital Markets.

Card fees decreased $289 million or 73%. The reduction was in large part attributable to the $185 million adjustment to P&C Canada's customer loyalty rewards program liability. In the fourth quarter of 2006, we securitized $1.5 billion of credit card loans. This reduced card fees by approximately $147 million and lowered net interest income, largely offset by an increase in securitization revenues and lower provisions for credit losses. The remaining $43 million increase was primarily due to the continued success of our Mosaik® MasterCard.

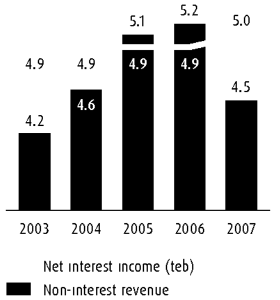
Investment management and custodial fees increased $24 million or 8%, primarily due to higher investment and trust revenue in North American Private Banking. Growth was reduced by the weaker U.S. dollar.

Average Earning Assets and Net Interest Margin (teb)



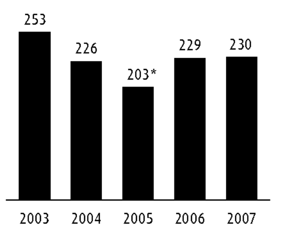
There was strong growth in low-spread trading assets, reducing BMO's net interest margin.

Net Interest Income (teb) and Non-Interest Revenue
($ billions)



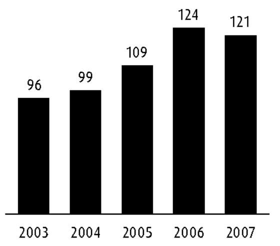
Lower non-interest revenue reflected commodities losses and the difficult capital markets environment.

Assets under Administration
($ billions)



The weaker U.S. dollar lowered reported asset levels in all periods.
*Reflects the sale of Harris*direct*.

Assets under Management
($ billions)



Asset growth was reduced by the weaker U.S. dollar.

Non-Interest Revenue ($ millions)

For the year ended October 31	2007	2006	2005	Change from 2006 $	%
Securities commissions and fees	**1,145**	1,051	1,092	**94**	**9**
Deposit and payment service charges	**728**	729	734	**(1)**	**–**
Trading revenues	**(487)**	718	496	**(1,205)**	**(+100)**
Lending fees	**406**	337	313	**69**	**20**
Card fees	**107**	396	334	**(289)**	**(73)**
Investment management and custodial fees	**322**	298	305	**24**	**8**
Mutual fund revenues	**576**	499	437	**77**	**15**
Securitization revenues	**296**	100	113	**196**	**+100**
Underwriting and advisory fees	**528**	407	357	**121**	**30**
Securities gains	**246**	145	165	**101**	**70**
Foreign exchange, other than trading	**132**	102	97	**30**	**29**
Insurance income	**230**	204	162	**26**	**13**
Other	**277**	255	447	**22**	**9**
Total	**4,506**	5,241	5,052	**(735)**	**(14)**

Mutual fund revenues increased $77 million or 15%, after having increased 14% in 2006 and 16% in 2005, reflecting growth in our mutual fund businesses.

Securitization revenues increased $196 million, almost tripling from a year ago. Approximately $180 million of the increase was attributable to revenues earned from the $1.5 billion credit card loan securitization vehicle, including gains recognized on loan sales in 2007. Securitization revenues are detailed in Note 7 on page 104 of the financial statements.

Underwriting and advisory fees increased $121 million or 30%, after having increased 14% in 2006. Merger and acquisition fees were particularly robust, and equity underwriting was notably strong as markets were particularly favourable in the first half of the year. Debt underwriting fees experienced a solid increase. Revenues in each of the three categories were sharply lower in the fourth quarter in a difficult capital markets environment.

Securities gains increased $101 million or 70%. The increase was largely attributable to a gain on sale of MasterCard International Inc. shares.

Income from foreign exchange, other than trading, increased $30 million or 29% due to more active and volatile foreign exchange markets and gains on hedging our U.S. dollar earnings, which is explained on page 35.

Insurance income increased $26 million or 13%. The increase was due to favourable claims experience, as growth slowed somewhat from the high rates of the past three years.

Other revenue includes various sundry amounts and rose $22 million or 9%. The increase was attributable to higher sundry fees in P&C Canada.

Table 7 on page 80 provides further detail on revenue and revenue growth.

Trading-Related Revenues

Trading-related revenues are dependent on, among other things, the volume of activities undertaken for clients, who enter into transactions with BMO to mitigate their risks or to invest. BMO earns a spread or profit on the net sum of its client positions by profitably neutralizing, within prescribed limits, the overall risk of the net positions. BMO also assumes proprietary positions with the goal of earning trading profits.

On May 17, 2007, we announced that we would be recording significant losses in our commodities trading business. In 2007, we recorded $853 million of such losses, of which $841 million was recorded as a charge to non-interest trading revenues, and which, net of a $120 million reduction in performance-based compensation and reductions in income taxes, lowered net income by $440 million or $0.86 per share. The losses related in substantial part to the use of a more appropriate market-based methodology in the valuation of our commodities portfolio. The portfolio had previously been marked to market each day by traders and the valuations confirmed independently on a monthly basis. As our natural gas portfolio grew, we sought additional verification of the valuations from independent sources in addition to our principal external broker for natural gas options contracts. Management subsequently initiated an external review of the commodities trading activity, which raised concerns related to the reliability of quotes received from the principal external broker. At that time, we suspended our business relationship with the broker, pending the results of the external review.

BMO's commodities portfolio is now more appropriately marked-to-market after a completed valuation review. We recorded further losses of $149 million in the third quarter, approximately half of which related to the elimination of certain large proprietary positions by entering into offsetting contracts with a counterparty. Losses were lower in the fourth quarter, totalling $24 million.

In the fourth quarter, BMO recorded $318 million ($211 million after tax) of charges for certain trading activities and valuation adjustments related to deterioration in capital markets. The charges included $169 million in respect of trading and structured-credit related positions and preferred shares; $134 million related to Canadian asset-backed commercial paper (ABCP); and a $15 million charge recorded in investment securities gains that related to capital notes in the Links Finance Corporation (Links) and Parkland Finance Corporation (Parkland) structured investment vehicles (SIVs).

Trading-related revenues include net interest income and non-interest revenue earned from on and off-balance sheet positions undertaken for trading purposes. The management of these positions typically includes marking them to market on a daily basis. Trading revenues include income (expense) and gains (losses) from both on-balance sheet instruments and off-balance sheet interest rate, foreign exchange (including spot positions), equity, commodity and credit contracts.

Interest and Non-Interest Trading-Related Revenues ($ millions)

For the year ended October 31	2007	2006	2005	Change from 2006 $	Change from 2006 %
Interest rates	**43**	204	247	**(161)**	**(79)**
Foreign exchange	**273**	214	172	**59**	**28**
Equities	**189**	173	145	**16**	**9**
Commodities	**(853)**	124	91	**(977)**	**(+100)**
Other	**15**	35	16	**(20)**	**(57)**
Total	**(333)**	750	671	**(1,083)**	**(+100)**
Reported as:					
Net interest income	**154**	32	175	**122**	**+100**
Non-interest revenue – trading revenues	**(487)**	718	496	**(1,205)**	**(+100)**
Total	**(333)**	750	671	**(1,083)**	**(+100)**

The Canadian ABCP charges reflect $80 million for our investment in commercial paper issued by one of our BMO-sponsored conduits and $54 million for our investment in commercial paper issued by non-bank-sponsored conduits. Both write-downs were taken using an estimated mark-to-market adjustment of 15%. BMO has not provided backstop liquidity commitments to any of the preceding conduits.

The above noted BMO-sponsored conduit's underlying positions are super-senior AAA-rated with exposures to high-quality, diversified corporate debt through collateralized debt obligations (CDOs). The conduit has no direct exposure to U.S. subprime-related loans. We are in discussions with a number of counterparties on restructuring alternatives regarding this conduit.

Realization of any gains or losses on the non-bank-sponsored investments will be affected by the outcome of the agreement reached among certain non-bank-sponsored Canadian ABCP conduits and investors known as the Montreal Accord.

Our investments and commitments related to SIVs are discussed in the BMO Capital Markets section on page 53.

Given the amount of our investments in ABCP and the SIVs, and given the uncertainty in the capital markets environment, these investments could experience subsequent valuation gains and losses due to changes in market value.

Trading-related revenue declined by $1,083 million from the particularly strong results in 2006 because of the commodities losses and charges discussed above.

Excluding the $1,171 million of significant items included in trading revenues, trading-related revenues rose $88 million. Foreign exchange trading revenues were strong over the course of the year, with particularly strong growth in the third and especially the fourth quarters. Fixed income trading revenues were very strong through the first three quarters, falling significantly in the fourth quarter in the difficult capital markets environment. Equities trading revenues followed a similar pattern.

The Market Risk section on page 68 provides other information on trading-related revenues.

Provision for Credit Losses

Credit conditions in 2007 softened from the favourable credit environment of 2006 as BMO recorded a $353 million provision for credit losses, consisting of $303 million of specific provisions and a $50 million increase in the general allowance for credit losses. These amounts compare to a $176 million provision recorded in 2006, comprised of specific provisions of $211 million and a $35 million reduction in the general allowance. The 2007 increase in the general allowance was primarily due to portfolio growth and risk migration.

As illustrated in the adjoining table, in the current credit cycle, specific provisions for credit losses peaked in the 2001-2002 period, declined sharply by 2004, returned to more moderate but still low levels in 2005 and 2006, and increased somewhat in 2007. As expected, the effect of lower levels of new specific provisions over the past few years has continued to result in declining levels of reversals of previous allowances and recoveries of past write-offs, which peaked in 2004. The relatively high level of reversals and recoveries in 2004 was largely due to the success of our effective loan realization practices, including strong cash collections and loan sales, driven in large part by high levels of gross impaired loans from which to effect sales, as well as a receptive secondary market.

In 2007, sales of gross impaired loans totalled $28 million, with resulting reversals and recoveries of $5 million. This compares with sales of $53 million and related reversals and recoveries of $34 million in 2006.

The most significant factor influencing the provision for credit losses is the level of formations of new impaired loans – identified as additions to impaired loans and acceptances in the adjacent Changes in Gross Impaired Loans and Acceptances table. As with specific provisions, these formations peaked in 2001-2002, steadily declining thereafter to a low of $420 million in 2006, and increasing to $588 million in 2007. Correspondingly, gross impaired loans and acceptances have increased to $720 million from the historically low level of $666 million recorded in 2006. This increase was expected at this point in the credit cycle.

At October 31, 2007, the allowance for credit losses totalled $1,055 million, almost unchanged from $1,058 million a year earlier. The general allowance, which totalled $898 million at year-end, remains adequate, representing 50 basis points of risk-weighted assets. In addition, BMO uses credit default swaps to mitigate single-name credit exposures. At October 31, 2007, the notional value of these instruments totalled $1,011 million, compared with $1,084 million a year earlier.

BMO's loan book continues to be comprised largely of more stable consumer and commercial portfolios that, excluding securities borrowed or purchased under resale agreements, represented 78.6% of the loan portfolio at year-end, declining from 83.1% in 2006 on strong growth in the corporate portfolio. We continue to monitor those industry sectors considered to be of most concern in the current economic conditions, including automotive and forestry, as well as those sectors particularly sensitive to high energy prices, a strong Canadian dollar and a softening of the U.S. economy. BMO's exposure to these sectors remains well within acceptable levels.

Looking forward, we expect the credit environment to remain volatile through 2008, with uncertainty arising from recent subprime loan and capital markets concerns as well as high energy prices, a high Canadian dollar and the potential for further softening of the U.S. economy. Accordingly, we expect the 2008 provision for credit losses to be $475 million or less, with the increase over the current year largely related to the credit cycle and an expectation of increasing levels of new specific provisions and lower levels of reversals and recoveries.

Credit risk management is discussed further on page 67. Note 4 on page 101 of the financial statements and Tables 11 to 19 on pages 84 to 87 provide details of BMO's loan portfolio, impaired loans and provisions and allowances for credit losses.

Provision for (Recovery of) Credit Losses (PCL)

($ millions, except as noted)

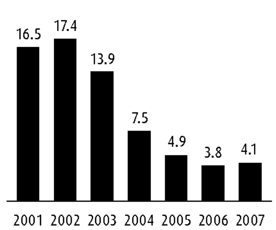
For the year ended October 31	**2007**	2006	2005	2004	2003	2002	2001
New specific provisions	**460**	410	407	510	846	1,063	1,023
Reversals of previous allowances	**(66)**	(87)	(121)	(312)	(303)	(175)	(103)
Recoveries of prior write-offs	**(91)**	(112)	(67)	(131)	(88)	(68)	(40)
Specific provisions for credit losses	**303**	211	219	67	455	820	880
Increase in (reduction of): General allowance	**50**	(35)	(40)	(170)	–	–	100
Provision for (recovery of) credit losses	**353**	176	179	(103)	455	820	980
PCL as a % of average net loans and acceptances (%)	**0.17**	0.09	0.11	(0.07)	0.30	0.56	0.66

Changes in Gross Impaired Loans (GIL) and Acceptances

($ millions, except as noted)

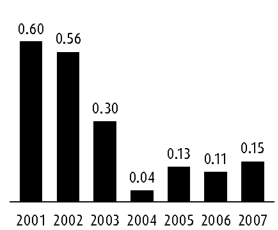
	2007	2006	2005	2004	2003	2002	2001
GIL, beginning of year	**666**	804	1,119	1,918	2,337	2,014	1,501
Additions to impaired loans and acceptances	**588**	420	423	607	1,303	1,945	2,041
Reductions in impaired loans and acceptances	**(143)**	(220)	(319)	(936)	(1,156)	(738)	(830)
Write-offs	**(391)**	(338)	(419)	(470)	(566)	(884)	(698)
GIL, end of year	**720**	666	804	1,119	1,918	2,337	2,014
GIL as a % of gross loans and acceptances (%)	**0.36**	0.35	0.46	0.71	1.30	1.54	1.37

Gross Impaired Loans and Acceptances as a % of Equity and Allowances for Credit Losses



Gross impaired loans have edged higher amid more volatile credit markets.

Specific Provision for Credit Losses as a % of Average Net Loans and Acceptances



Provisions remain low but credit conditions softened in 2007.

MD&A

Non-Interest Expense

Non-interest expense increased $248 million or 3.9% to $6,601 million. The factors contributing to the 3.9% increase are set out in the Contribution to Non-Interest Expense Growth table. Significant items included the $159 million restructuring charge and a $120 million reduction in performance-based compensation. Excluding the impact of significant items, non-interest expense rose $209 million or 3.3%.

As explained on page 35, the net effect of businesses acquired in 2007 and 2006 increased expenses in 2007 relative to 2006 by $46 million (0.7%). As further explained on page 35, the weaker U.S. dollar reduced costs in 2007 by $57 million (–0.9%). Restructuring charges increased expenses by $159 million (2.5%). We recorded a restructuring charge of $135 million in the first quarter and are proceeding with implementing the associated changes. We have approximately 50 initiatives targeted at improving efficiency and effectiveness across the enterprise. When fully implemented, we anticipate a reduction of approximately 1,000 full-time positions, primarily in non-customer-facing areas. Through October 31, 2007, we had eliminated approximately 840 positions. The initiatives are targeted to reduce our run rate expense by $300 million, approximately $140 million of which was achieved by the end of fiscal 2007. In the fourth quarter, we reversed $16 million of the charge because of higher than expected attrition and redeployment of affected staff. We also recorded a further charge of $40 million in respect of the planned elimination of approximately 400 more positions that were subsequently identified.

Lower performance-based compensation costs reduced expenses by $47 million (0.7%), including a reduction in BMO Capital Markets expenses. Although a number of its businesses earned much higher fee-based revenues, the effects of commodities losses and the fourth quarter charges related to deterioration in capital markets reduced overall income and lowered the group's performance-based costs by 17%. In contrast, Private Client Group's revenue-based costs rose 10%, in line with improved performance. Other factors include remaining business-based costs that increased overall expenses in 2007 by 2.3%.

The dollar and percentage changes in expenses by category are outlined in the Non-Interest Expense table. Table 8 on page 81 provides more detail on expenses and expense growth.

Other employee compensation expense, which includes salaries and employee benefits, was $48 million or 2% higher than in 2006 due to increased salaries expense. Salaries expense had changed little during 2004 and 2005 as staffing levels were relatively constant in those periods (see page 81). However, staffing increased in 2006 and 2007 due to the addition of front-line sales and service staff in P&C Canada, growth in Private Client Group's sales force, acquisitions and organic business growth. The weaker U.S. dollar helped keep cost increases in check. Our staffing levels increased in 2007 by almost 900 or 2.5% to 35,827 full-time equivalent staff. In P&C Canada, costs also reflected bcpbank Canada and higher promotional costs, including the costs of the AIR MILES debit card initiative. In P&C U.S., cost increases primarily reflected acquisition-related expenses. In Private Client Group, there were increased investments in our sales force and U.S. investment management business.

Premises and equipment costs increased $92 million, primarily due to higher computer and equipment costs related to increased consulting, software and service bureau costs. Other expenses decreased slightly overall, primarily due to lower business and capital taxes, which were reduced by $47 million as a result of the resolution of audit issues with taxing authorities. There were higher professional fees due to our Basel initiative, our restructuring and the external review of our commodities losses, as well as consulting services that supported development, other initiatives in 2007 and increased legal fees related to business activities.

The **productivity ratio** (or **expense-to-revenue ratio**) is our key measure of productivity. It is calculated as non-interest expense divided by total revenues (on a taxable equivalent basis), expressed as a percentage. See page 34.
The **cash productivity ratio** is calculated in the same manner, after removing the amortization of intangible assets from non-interest expenses. See page 34.

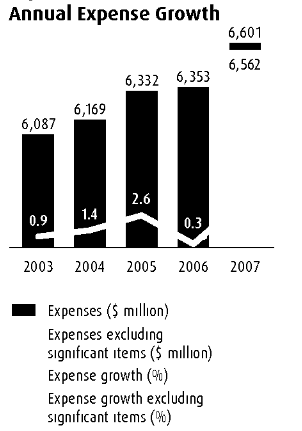
Contribution to Non-Interest Expense Growth (%)

For the year ended October 31	**2007**	2006	2005
Businesses acquired/(sold)	**0.7**	(3.1)	0.8
Restructuring charge	**2.5**	–	–
Currency translation effect	**(0.9)**	(1.6)	(2.3)
Performance-based compensation	**(0.7)**	0.6	1.9
Other factors	**2.3**	4.4	2.2
Total non-interest expense growth	**3.9**	0.3	2.6

Non-Interest Expense ($ millions)

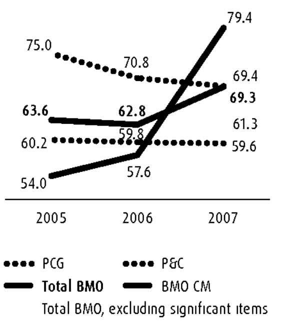
				Change from 2006	
For the year ended October 31	**2007**	2006	2005	$	%
Performance-based compensation	**1,275**	1,322	1,277	**(47)**	**(4)**
Other employee compensation	**2,550**	2,502	2,474	**48**	**2**
Total employee compensation	**3,825**	3,824	3,751	**1**	**–**
Premises and equipment	**1,303**	1,211	1,264	**92**	**8**
Restructuring charge	**159**	–	–	**159**	**+100**
Other	**1,268**	1,274	1,223	**(6)**	**–**
Amortization of intangible assets	**46**	44	94	**2**	**4**
Total	**6,601**	6,353	6,332	**248**	**4**

Expenses and Annual Expense Growth



More than half of our expense increase was due to the restructuring charge.

Productivity Ratio by Group (teb) (%)



Productivity improved in each group except BMO CM, and total BMO productivity improved, excluding significant items.

Productivity

The productivity ratio (expense-to-revenue ratio) deteriorated by 645 basis points to 69.3% in 2007. Excluding the impact of significant items, the productivity ratio improved by 150 basis points to 61.3%. BMO's overall ratio in any year is affected by the relative strength of the revenues in each operating group. The productivity ratio of each group over the years has typically been quite different because of the nature of their businesses. However, the ratios have been converging, as Private Client Group has made significant productivity improvements while a changing revenue mix has increased BMO Capital Markets' productivity ratio. In 2007, as in 2006 and 2005, both P&C Canada and Private Client Group (excluding Harris*direct*) increased revenues more than